

August 29, 2000

ALLEN R. KANE  
CHIEF MARKETING OFFICER  
AND SENIOR VICE PRESIDENT

RICHARD J. STRASSER, JR.  
ACTING CHIEF FINANCIAL OFFICER  
AND EXECUTIVE VICE PRESIDENT

SUBJECT: Audit Report - International List Service Transmittal of Funds Compliance  
with the Bank Secrecy Act (Report Number FT-AR-00-002)

This report presents the results of our audit of the Postal Service's compliance with the Bank Secrecy Act for the international list service transmittal of funds (Project Number 00PA010FR000). This audit was conducted as part of our ongoing work on Bank Secrecy Act compliance. Specifically, we accompanied the Bank Secrecy Act Compliance Office staff on a review to identify the controls and procedures that would be necessary to ensure that international list service transmittal of funds was in compliance with the Bank Secrecy Act.

The audit revealed the Postal Service's processes and procedures for international list service transmittal of funds did not comply with the Bank Secrecy Act. Specifically, controls and procedures were not in place to ensure that personnel complied with recordkeeping requirements and that required transactions were reported to the United States Department of the Treasury.

Management agreed with our recommendation to restrict expansion to countries currently not receiving list service until such service is compliant with the Bank Secrecy Act. We view management's comments as responsive to our finding and recommendation. Management's comments are included in their entirety in the Appendix.

We appreciate the cooperation and courtesies provided by your staff during the audit. If you have any questions, please contact John E. Cihota, acting director, Financial Statements, or me at (703) 248-2300.

Debra S. Ritt  
Acting Assistant Inspector General  
for Business Operations

Attachment

cc: Patricia M. Gibert  
Stephen M. Kearney  
Donna M. Peak  
E. Kaye DeShields  
Edward L. Brown  
Henry T. Gibson  
Christopher Giusti  
Robert J. Pedersen  
Jayne E. Schwarz  
Kristine A. Wright  
Gladys E. Zamora  
John R. Gunnels

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## EXECUTIVE SUMMARY

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### Introduction

This report presents the results of our audit of the Postal Service's compliance with Bank Secrecy Act requirements for international list service transmittal of funds (list service).<sup>1</sup> This audit was conducted as part of our ongoing work on Bank Secrecy Act compliance (Project Number 00PA010FR000). The Bank Secrecy Act Compliance Office plans to outline specific controls and procedures that ensure compliance with the Bank Secrecy Act under the reengineered list service process. We will, as part of our ongoing series of Bank Secrecy Act reviews, evaluate the extent to which the specific controls and procedures are implemented.

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### Results in Brief

We found that Postal Service international list service transmittal of funds processes and procedures do not currently comply with the Bank Secrecy Act. Specifically, controls and procedures were not in place to ensure that personnel comply with the recordkeeping requirements and that required transactions are reported to the United States Department of the Treasury.

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### Summary of Recommendations

We recommend that the acting chief financial officer and executive vice president, and the chief marketing officer and senior vice president restrict expansion to countries currently not receiving list service until the list service product is compliant with the Bank Secrecy Act.

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### Summary of Management's Comments

The acting chief financial officer and executive vice president, and the chief marketing officer and senior vice president agreed with our recommendation to restrict expansion to countries currently not receiving list service until such service is compliant with the Bank Secrecy Act. Management's comments, in their entirety, are included in the Appendix to this report.

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<sup>1</sup> Many Postal Service personnel refer to this product as "list service money orders" because a listing of all transactions to or from other countries is forwarded for completion of the transactions. The listing provides the details of the transactions including the recipients' and senders' names, and dollar amount of the transactions. In most cases, the recipient ultimately receives a negotiable money order based on information on the list. The Financial Crimes Enforcement Network has stated this product is considered a transmittal of funds for purposes of the Bank Secrecy Act. Therefore, we will refer to the product as "list service transmittal of funds" or "list service" in this report.

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**Overall Evaluation of  
Management's  
Comments**

Management's comments are responsive to our finding and recommendation. We believe that the actions, taken and planned, should correct the issue identified in our report.

## INTRODUCTION

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### Background

The Bank Secrecy Act<sup>2</sup> is a law enacted to deter money-laundering activities. Money laundering is the attempt to conceal or disguise the nature, location, source, ownership, or control of money derived from illegal activities. The Bank Secrecy Act requires that the Postal Service maintain specific information concerning the cash purchase of financial instruments by an individual totaling \$3,000 or more in one day regardless of the number of individual transactions. Financial instruments as defined by the act include the Postal Service list service. Further, the Bank Secrecy Act requires the Postal Service to report to the United States Department of Treasury, on a Currency Transaction Report, specific information concerning purchases totaling \$10,000 or more in one day by an individual. The Bank Secrecy Act also requires the Postal Service to establish and maintain a compliance program and an active anti-money laundering program; and conduct audits to evaluate compliance. Establishing a compliance program includes recording and reporting required information concerning the transmittal of funds to the United States Department of Treasury. Civil penalties for noncompliance with the recordkeeping requirements of the Bank Secrecy Act range from \$25,000 to \$100,000 for each occurrence.

"Outgoing" list services provide a means for Postal Service customers in the United States to transmit funds to recipients in over 70 foreign countries. Further, Foreign Postal Administrations provide the Postal Service with "incoming" lists for the transmittal of funds from foreign countries to recipients in the United States. The "incoming" lists contain the senders' and recipients' names and addresses, and the Postal Service issues money orders to the recipients in the United States.

There are three types of "outgoing" list services:

- Standard list service.
- WorldLink.<sup>3</sup>
- POST\*Net.

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<sup>2</sup> Public Law 91-508, 84 Stat. 1114 (1970).

<sup>3</sup> WorldLink is a registered trademark of Citibank.

For all three types of "outgoing" list services the Postal Service customer purchases a "USPS Authorization to issue an International Money Order" from a post office and completes the form providing sender and recipient name and address information. For standard list service, the Postal Service prints the money orders payable to the recipient and mails the money orders and a list, containing sender and recipient information, to the applicable Foreign Postal Administration. The Foreign Postal Administration may then issue either the Postal Service money order or its own money order to the recipient. For WorldLink list service the sender and recipient information is sent to Citibank. Citibank either sends a check directly to the recipient or forwards funds to the Foreign Postal Administration for the Administration to issue its own money order to the recipient. For POST\*Net<sup>4</sup> the Postal Service transmits the sender and recipient information to Bern, Switzerland, where the applicable Foreign Postal Administration retrieves the data and issues the recipient a money order.

The Postal Service processed the following list service transactions during FY 1999:

<u>Type</u>	<u>Number of Transactions</u>	<u>Value of Transactions</u>
Standard "incoming"	55,000	\$9.9 million
Standard "outgoing"	18,000	\$4.7 million
WorldLink "incoming"	14,000	\$2.3 million
WorldLink "outgoing"	34,000	\$7 million
POST*Net "outgoing"	50	\$16,000

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**Objective, Scope, and Methodology**

The objective of our audit was to accompany the Bank Secrecy Act Compliance Office staff on a review of list service compliance with the Bank Secrecy Act. Postal Service Finance, Marketing, and Bank Secrecy Act personnel are currently coordinating to reengineer the list service process. Therefore, we also familiarized ourselves with the controls and procedures that would be necessary to ensure compliance with the Bank Secrecy Act. We discussed list service procedures and controls with

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<sup>4</sup> Currently Mexico is the only country that receives POST\*Net list service transmittal of funds. The product with Mexico is referred to as Efectivo Postale.

representatives from the St. Louis Information Service Center, Postal Service Headquarters, and the Postal Service Headquarters Bank Secrecy Act Compliance Office. We also reviewed "outgoing" list service transactions from January 1989 to December 1999 that were maintained in the list service issue file on the San Mateo mainframe. We were unable to review detailed "incoming" list service transactions because historical data to evaluate Bank Secrecy Act compliance is not maintained.

This audit was conducted from December 1999 through August 2000 in accordance with generally accepted government auditing standards, and included such tests of internal controls as were considered necessary under the circumstances. We discussed our conclusions and observations with appropriate management officials and included their comments, where appropriate.

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**Prior Audit Coverage**

We issued two reports concerning the Bank Secrecy Act, but these reports did not address list services.

The first report (Number FR-LA-98-001) issued on September 30, 1998, concluded the Postal Service made progress in complying with the Bank Secrecy Act, but raised concerns about system access, training, and document retention.

The second report (Number FR-AR-99-007) issued on September 20, 1999, concluded that the Postal Service continued to be noncompliant with the Bank Secrecy Act in certain areas. Specifically, full implementation was delayed due to restricted funding and unanticipated system development complications, standard operating procedures were not developed, and sensitive and restricted production data was used in the 'test' environment.

Management agreed with our suggestions and recommendations in both reports and initiated corrective actions. Postal Service management personnel concurred with the recommendation and stated they expected to be compliant with the Bank Secrecy Act by October 31, 2000.



## AUDIT RESULTS

<b>List Service Transmittal of Funds</b>	Postal Service processes and procedures for list service did not comply with the Bank Secrecy Act. <sup>5</sup> Specifically, controls and procedures were not in place to ensure that personnel complied with the recordkeeping requirements and required transactions were not reported to the United States Department of Treasury. Noncompliance with the Bank Secrecy Act potentially subjects the Postal Service to millions of dollars <sup>6</sup> in civil penalties.
<b>Outgoing List Service</b>	<p>Review of over 350,000 "outgoing" list service transactions from January 1989 to December 1999, valued at approximately \$79 million, revealed the following:</p> <p>Bank Secrecy Act records were required to be maintained in 514 instances, and in 9 of these instances, Currency Transaction Reports were required to be submitted to the United States Department of Treasury. However, prior to April 1997 Bank Secrecy Act records were not centrally maintained; therefore, we were unable to determine whether required information was obtained for the 281 instances during that timeframe. Further, records were maintained in only 71 of the 233 (30.5 percent) instances since April 1997, leaving 162 noncompliant instances during that timeframe. Further, no Currency Transaction Reports were reported to the United States Department of Treasury in any of the nine required instances, including the two that occurred after April 1997. The Postal Service could be subject to a maximum of \$44 million<sup>7</sup> in civil penalties for these noncompliances.</p>

<sup>5</sup> The Bank Secrecy Act Compliance Office is currently working with Postal Service Finance, Marketing, and Information Systems personnel to reengineer the list service process to ensure compliance with the Bank Secrecy Act and to streamline and automate the process; however, the reengineering process is in the beginning stages and no definitive implementation date has been developed.

<sup>6</sup> Each instance of noncompliance with Bank Secrecy Act reporting or recordkeeping requirements subjects the Postal Service to potential civil penalties ranging from \$25,000 to a maximum of \$100,000.

<sup>7</sup> This amount comprises 443 noncompliant instances times the \$100,000 maximum in civil penalties, if the United States Department of Treasury were to levy maximum fines for all the noncompliant instances.

Incoming List Service	We were unable to determine the extent of compliance for "incoming" list service because required data <sup>8</sup> to evaluate Bank Secrecy Act compliance is not maintained long-term. Specifically, detailed sender, recipient, and sales data is not maintained in an automated environment for longer than one week. However, "incoming" list service is similar to "outgoing" sales volume and the level of compliance may be similar.
<b>Audit Comment</b>	The St. Louis Accounting Service Center, in coordination with the Bank Secrecy Act Compliance Office, submitted a software change request in February 2000 to retain, for five years, "incoming" list service data needed for Bank Secrecy Act compliance. The software change request was approved and completed on March 30, 2000.
<b>Recommendation</b>	We recommend the acting chief financial officer and executive vice president, and the chief marketing officer and senior vice president restrict expansion to countries currently not receiving list service until such service is compliant with the Bank Secrecy Act.
<b>Management's Comments</b>	The acting chief financial officer and executive vice president, and the chief marketing officer and senior vice president agreed with our recommendation to restrict expansion to countries currently not receiving list service until such service is compliant with the Bank Secrecy Act.
<b>Evaluation of Management's Comments</b>	Management's comments are responsive to our finding and recommendation. We believe that the actions, taken and planned, should correct the issue identified in our report.

<sup>8</sup>For "incoming" list service the Bank Secrecy Act requires the Postal Service to maintain, for five years, a copy of the list received from the Foreign Postal Administration; a copy of the money order issued to the recipient; the recipient's name and address and the details of the transactions conducted with the recipient. The information must also be retrievable by recipient name.

## APPENDIX. MANAGEMENT'S COMMENTS




July 28, 2000

RONALD K. SMITH


SUBJECT: Transmittal of Draft Audit Report – International List Service Transmittal of Funds  
Bank Secrecy Act Compliance (Report Number FA-AR-00-Draft)

In reply to your letter dated June 29, 2000, reference the audit of the Postal Service compliance with the Bank Secrecy Act for the international list service transmittal of funds (Project Number 0PA010FR000), I am in agreement with the recommendation to restrict expansion to countries currently not receiving list service until the list service product is compliant with the Bank Secrecy Act.

If you have any questions or need additional information, please contact Robert Pedersen, Assistant Treasurer, Financing and Investments at (202) 268-6137.



Richard J. Strasser Jr.  
Acting Chief Financial Officer  
Executive Vice President



Allen Kane  
Chief Marketing Officer  
Senior Vice President

cc: Ms. Peak  
Ms. Gibert

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**Major Contributors to  
This Report**

[REDACTED]